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Is China Blocking Africa's Economic Development?

With China playing a dominant role in trade, investment, and aid flows among BRIC countries, this policy brief delves into the critical question of whether China's economic development is blocking that of Africa's, and the extent that relations with China reduce or expand the degree of policy autonomy of African countries. This brief focuses on two controversial policy areas: labour standards and industrial development. Ultimately a "flying geese" analytical lens is stressed to highlight China's dynamic development trajectory vis-à-vis that of African countries, and to better assess the likely impacts on African development.

Using a dynamic perspective, this brief argues that the degree and intensity of head-to-head China-Africa competition in the production and export of low-value added manufactures (such as clothing, textile, furniture, and footwear) is likely to be transitory, as costs rise in China and it seeks to gradually move up the technology ladder in goods and services.

This policy brief discusses the impact of Sino-African interactions on the degree of policy autonomy of African countries by examining two policy areas: labour standards and industrial development.

This South-South brief is the second in a series of three that examine the burgeoning economic relationships between **BRIC (Brazil, Russia, India, and China)** and African countries and their developmental implications.

The term "policy autonomy" or "policy space" began to gain traction in UNCTAD documents as of 2002, and was more formalized in paragraph 8 of the "Sao Paulo Consensus" at UNCTAD XI in 2004 which recognized the need to strike a balance between national policy autonomy and international disciplines: "The increasing interdependence of national economies in a globalizing world and the emergence of rule-based regimes for international economic relations have meant that space for national economic policy, i.e. the scope for domestic policies, especially in the areas of trade, investment and industrial development, is now often framed by international disciplines, commitments and global market considerations".

Important to understanding the concept of "policy space" is the relationship between autonomy of national economic policy-making and the effectiveness of these policy instruments in actually achieving national policy objectives. Economic openness is believed to further complicate matters by injecting the influences of foreign entities into domestic policy-making processes, while also reducing *de jure* domestic policy autonomy by subjecting it to international disciplines and constraints. That said, even in a closed economy that is insulated from external influences, national authorities do not necessarily have full command over policy instruments and their outcomes. This can be due to the fact that there may be trade-offs among the desired objectives, such as between full employment and price stability and between equity and efficiency, and achieving multiple objectives simultaneously may require an adequate number of effective instruments and implementing institutions working in coordination (Akyuz 2009).

Labour Standards

One of the most controversial issues afflicting the Africa-China relationship, the general perception is that Chinese companies drag down labour standards by bringing their own workers on overseas projects and by exploiting local workers that they do hire. This can be seen as weakening the ability and policy autonomy of local authorities to uphold labour standards. Yet, the lack of systematic research and data availability on Chinese investments and economic activities makes it very difficult to isolate the impacts of these on African labour markets either vis-à-vis other investors, or in the conduct of domestic macro-economic governance.

For example, in 2006 UNIDO published a survey of 1216 foreign firms (Chinese, Indian, South African, and Western investors) operating in 15 African countries. The survey found that Chinese firms were younger, had lower sales per worker (but with higher sales growth), had a greater propensity to export, and had lower investment rates and lower annual wages. Surveyed Chinese firms were mostly focused on export-oriented low-wage assembly operations, but also hired a higher proportion of low-skilled local workers. The study, however did not attempt to survey a consistent set of firms across industries, it is not possible to distinguish from the data whether the observed differences were a result of the investor's country of origin, or of the host country in which they had invested, or of the particular industrial sector in which the company did business (Kaplinsky and Morris 2009).

A recent report by the African Labour Research Network (ALRN) conducting 10 country case studies suggests significant variation across Chinese business practices which cannot be generalized across the board. For instance, Chinese construction projects in Angola tend to have a higher ratio of imported Chinese labourers, where local labour is more expensive. In other countries, like Namibia, Chinese construction projects often have a majority of locally employed labour, with Chinese nationals clustered in management positions. This is also the case in Botswana, where Chinese construction companies employed about 700 Chinese nationals (engineers, managers, experts, etc.) and about 5,270 locals, as reported in 2008 (Baah and Jaunch 2009; Corkin *et al.* 2008).

According to Brautigam (2011), with few exceptions, field research on Chinese construction projects regularly reported having a majority of locals in their workforce; the poor conditions of this employment being the major point of contention. Overall, the ALRN report does point to some common trends in Chinese labour practices in Africa, including: tense labour relations, hostile attitudes towards trade unions, various violations of workers' rights, poor working conditions and several instances of discrimination and unfair labour practices. A recurring theme is the incidence of low wages and compensation and the tendency to hire contract workers for durations often beyond the statutory limit, which deprives workers of benefits mandated by domestic law.

For example, Ghana's Bui Dam Complex, the single largest Chinese-funded project (at the time), was undertaken by the state-owned SinoHydro Corp. of China and financed by concessional and commercial loans from the China Exim Bank. As of July 2008, a total of 560 Ghanaians and 110 Chinese were employed on the project; this was expected to grow to a peak total of 3000 workers, of which 2600 were to be Ghanaians. The report indicates that almost all of the local workers are employed as unskilled casual workers, without a single worker being given a contract of employment, often tasked with the construction of temporary structures (Baah and Jaunch 2009).

In terms of wages, Chinese construction firms in Ghana, Namibia and Angola were reported to pay their workers lower wages than local and foreign firms and in some cases below the relevant industry or national minimum standards. In Zambia, the company NFC Africa Mining Plc, which is majority-owned by state-owned China Nonferrous Metals Co. was reported to be the lowest payer in terms of salaries/wages in the domestic mining sector. The report indicates that Zambian unions have gained important inroads in negotiating with Chinese management to narrow, and in some cases eliminate, the gap in general conditions between unionized workers in Chinese and non-Chinese companies, including improving workers' benefits on par with non-Chinese copper mines. However, casual workers are not included in the collective agreement and this remains an area of concern (Baah and Jaunch 2009).

Of course, non-adherence to African national labour laws or core ILO conventions is not confined to Chinese employers and investors, and this generally remains a problem among non-Chinese employers as well. As such, concerns regarding Chinese labour practices are usually accompanied by recognition of the lack of government institutional capacity and resources to effectively inspect workplaces and to enforce compliance. For instance, the ALRN report's Zambian case study suggests the need to strengthen employment and industrial relations legislation to secure quality jobs and better treatment of local workers, as well as to enforce limits on expatriate workers, but it is also recognized that legislation alone is not sufficient (Baah and Jaunch 2009).

Similarly, a Human Rights Watch report on Chinese labour practices in the Zambian copper mining industry argued that companies (whether Chinese or otherwise) face few disincentives for violating labour and safety regulations, and ultimately stresses that "the question is thus enforcement. Under the previous administration, Zambia's regulations were only strong on paper" (HRW 2011).

Industrial Development

Perhaps the most scathing accusation against Sino-African ties is the charge that both direct Africa-China competition in labour-intensive low value-added industrial sectors in domestic African markets, and indirect export competition in third-country markets of the US and EU have devastating effects for Africa on what are often perceived as a set of industries that act as a step-ladder to industrial development. However, a "flying geese" lens is used below to provide some context in assessing the impacts on African development.

The "Flying Geese" Lens

At the core of the "flying geese" pattern of development, as coined by Kaname Akamatsu, is the concept of a sequential order to the process of industrialization by latecomer countries trying to "catch-up" to advanced nations. The "catch-up" process consists of three dimensions: **1)** the intra-industry dimension, **2)** the inter-industry dimension, and **3)** the international division of labour dimension (Lin 2011).

The first dimension relates to the product cycle in a particular developing country, whereby the country initially imports a good, then later moves into some domestic production (combined with imports), and finally becomes a (net) exporter of this good. The second dimension involves the sequential establishment and maturation of industries in a given developing country that diversifies and upgrades production capacities from consumer goods, to capital goods, to high-tech goods. The third dimension concerns the relocation of industries across countries, from advanced to developing countries, as latecomer countries progress through different stages of development (Lin 2011).

More concretely, in East Asia, three stylized groups are generally identified: Japan, as a "frontrunner", Asian newly industrialized economies (NIEs) (Hong Kong, Singapore, South Korea and Taiwan) as "second-runners", and the ASEAN four (Indonesia, Malaysia, the Philippines and Thailand) and China as "latecomers". Japan as the forerunner made simple manufactures in the 1950s-60s (ex. textiles), before increasing product sophistication over time in going from consumer to capital goods (ex. steel) in the 1960s-70s, and high-technology goods (ex. electronics) in the 1980s-90s. With a time lag, second-runner NIE countries then stepped-in to take over industrial sectors where the front-runner has "graduated" to higher value-added production. This process is then repeated with the latecomer countries of ASEAN four and China that enter sectors vacated by the "second-runners", and so on (Lin 2011).

Is China's economy following a dynamic "flying geese" style of development in moving up the value chain? If so, this will likely not "block" African development since African firms tend to occupy lower value-added segments of the global economy.

In this regard, the EIU (2011) provides some evidence that Chinese exporters are increasingly competing in core product markets of developed countries – such as in heavy equipment manufacturing like construction machinery and other capital equipment sectors – and taking market share at the expense of western companies in non-OECD markets. In 2008, 71.5 percent of all machinery imports in the BRIC countries (excluding China) and South Africa came from OECD countries. By 2010, this share fell to 63 percent, while China's market share increased from 17.5 percent to 21.8 percent during this period. Moreover, a BCG report surveyed seven large-equipment industries (photovoltaic, wireless telecom, wind power, coal power, power transmissions, rail rolling stock, and civilian aerospace) and noted that all except one (civilian aerospace) have at least one Chinese company among the top five global players (Bouffault *et al.* 2011).

South-South Dynamic Spaces

Is China blocking African development? While there is evidence that Chinese investors are negatively impacting labour standards in some African countries, this is not a uniformly one-dimensional story. Other factors, such as domestic macroeconomic fundamentals and labour market conditions are important policy framework considerations, as well as the impact of other foreign investors, and the institutional capacity of domestic governments to enforce their own labour laws and regulations.

Instead, more consequential development gains exist in South-South policy spaces created from China's pursuit of dynamic comparative advantage. Managed pragmatically, such spaces can be harnessed by African policy-makers to re-hone their macroeconomic policy frameworks towards their own "catch-up" industrial development. This issue is the focus of part 3 of this three-part NSI series of South-South policy briefs.

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This NSI policy brief is based on "South-South Impacts on African Developmental Policy Spaces", a NSI research report by Daniel Poon.